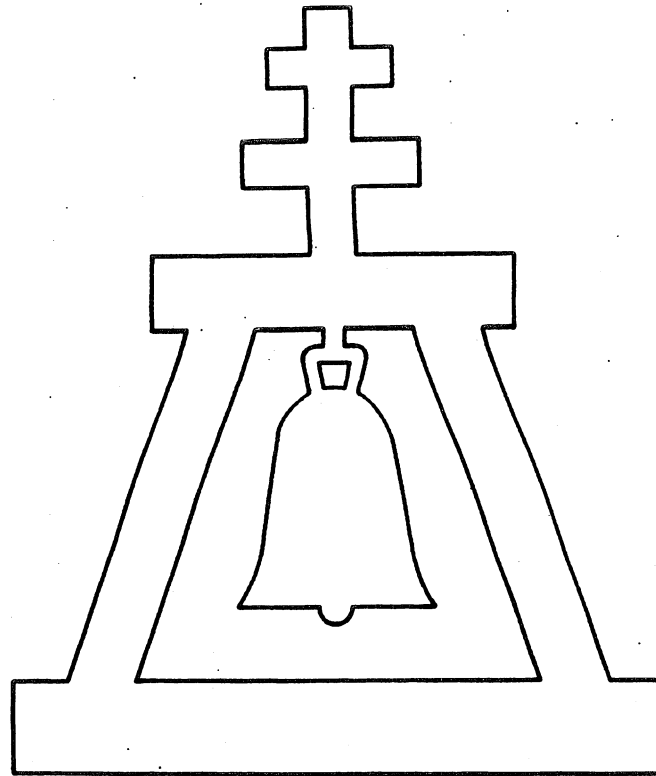


CITY OF RIVERSIDE, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2003

Prepared by the Finance Department
Paul C. Sundeen, Finance Director

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 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 YEAR ENDED JUNE 30, 2003
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CITY OF RIVERSIDE



September 30, 2003

To the Honorable Mayor, Members of the City Council and Citizens of the City of Riverside:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Riverside (the City) for the fiscal year ended June 30, 2003.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by McGladrey & Pullen, LLP, a firm of certified public accountants. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2003. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on internal controls and compliance with legal requirements, with emphasis on those involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

OFFICE OF THE CITY MANAGER
3900 MAIN STREET, RIVERSIDE, CALIFORNIA 92522
www.ci.riverside.ca.us

Management has provided an overall analysis of the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City of Riverside

The City of Riverside, incorporated on October 11, 1883, is located in the western portion of Riverside County about 50 miles east of Los Angeles. The City currently occupies a land area of 85.6 square miles.

The City operates under the council-manager form of government, with a seven-member council elected by ward for four year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the Council, but does not have a vote except in the case of a tie. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of various departments. The Council is elected on a non-partisan basis.

The City provides a full range of services which include general government, public safety (police, fire, disaster preparedness and building inspection), construction and maintenance of highways and streets, economic development, culture and recreation, electric, water, airport, refuse, sewer, and senior citizen/handicap transportation. In addition to general City activities, the Council is financially accountable for the Riverside Redevelopment Agency, Riverside Public Financing Authority, Parking Authority of the City of Riverside, Riverside Municipal Improvements Corporation and the Riverside Civic Center Authority; therefore, these entities are included as an integral part of the City's financial statements. Additional information on these legally separate entities can be found in Note I.A in the notes to the financial statements.

The annual budget serves as the foundation for the City's financial planning and control. The City Manager presents the proposed budget to the City Council for review at least thirty-five calendar days prior to the beginning of each fiscal year. The Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, which is the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the approval of the Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 27 as part of the basic financial statements for the governmental funds. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which begins on page 63.

Local economy. The City is located in the Inland Empire, which consists of Riverside and San Bernardino Counties. The population of the Inland Empire at 3.43 million people is larger than 21 states, and its projected growth over the next 20 years at 1.56 million is greater than all but five (5) states (California, Florida, Texas, Georgia and Washington). The City leads the Inland Empire in every measure of economic power, specifically, retail sales, population, income, employment, bank deposits, assessed valuations, office space and college students. The population of the City is 274,071, which places the City as the sixth largest in Southern California behind the City of Anaheim.

The Inland Empire has a very strong economic environment, as does the City. This area is expected to add over 27,000 jobs during calendar year 2003. The City owned electric utility gives it a competitive advantage at this time when energy costs and reliability are issues. Riverside's challenges include a lack of available space for manufacturing and industrial development within its current boundaries.

Priorities for the future: A Citywide Strategic Planning document has been developed through a series of meetings, workshops, and surveys with the community, elected officials, and City employees. The plan sets forth five goals as follows:

- **Preserve and Improve our Quality of Life**
- **Reduce Transportation Congestion and Improve Traffic Flow**
- **Address Riverside's Social Concerns with Community Involvement**
- **Beautify the City**
- **Increase our Investment in Youth and Children**

Current capital projects. In June 2002, the City's Electric System had substantially completed its installation of four natural gas turbine generators, each with a capacity of 10 megawatts. The generators will be used during periods of peak power demand in the City. In addition, a photovoltaic generating station was installed on the Utilities Operations Center.

The Park and Recreation Department recently completed the renovation of historic White Park, which included the construction of an 11,000 square foot building that house the Department's administrative offices, a senior center and a police storefront. In addition, the Department completed the Shamel Park pool, an expansion of Thundersky Park, the Arlington Park roller hockey project and a skateboard facility at Hunt Park.

Long-term financial planning. Annually, the City updates a six (6) year capital improvement program; planned capital expenditures during fiscal years 2002/2003 through 2007/2008 (except for the Park and Recreation Department which only plans projects as funds become available) total \$423 million, a 8% increase over the prior 6 year plan. Major projects included in this plan are: (1) \$210 million for improvements to the Electric Utility, principally for major generation, transmission and distribution projects, funded primarily by debt issuance, (2) \$60 million to maintain water system reliability, provide new water resources and refurbish the water system, funded principally by debt issuance, (3) \$47 million for the upgrade of primary and secondary sewer treatment systems, improvements in the solids handling system and disinfection system and an upgrade to a pump station, funded primarily by sewer connection fees and debt issuance, (4) \$13 million for airport improvements, funded primarily with federal and state grants, (5) \$15 million for the improvement of various park facilities, funded by a combination of park development fees, the general fund and grants, and (6) \$55 million in street related projects, mostly funded by federal and state gas taxes and Measure A.

Cash management policies and practices. Cash temporarily idle during the year was invested principally in federal agency securities and the State of California Local Agency Investment Fund (LAIF). The maturities of the investments do not exceed five (5) years, with the average maturity not exceeding three (3) years. All securities were held in third party safekeeping by Union Bank of California as agent for the City. The money market sweep account was held by Bank of America in its Trust Department. All transactions originated and authorized by the City are transacted on a delivery versus payment (DVP) basis in order to perfect delivery. The average yield on the investments was 3.646% for the fiscal year.

Risk management. Risk exposures to the assets of the City are managed through a combination of self-insured retention and insurance coverage. The City believes they have current assets adequate to cover the actuarially determined liability for general liability and workers' compensation claims, including estimated claims incurred but not reported. The City maintains excess liability insurance to provide coverage beyond a self-insured retention of \$3,000,000 per occurrence for workers' compensation. The City is fully self-insured for general liability.

Pension benefits. The City provides pension benefits for all employees through a statewide plan managed by the California Public Employees Retirement System (CalPERS). The City has no obligation in connection with employee benefits offered through this plan beyond its annual contractual payment to CalPERS. Additional information on the plan can be found in Note 12 in the notes to the financial statements.

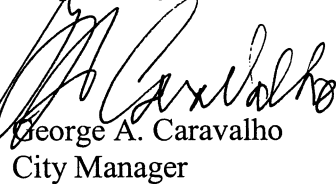
Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Riverside for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2002. This was the sixteenth consecutive year that the City has received this prestigious award. The City received this award for publishing an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal requirements.

This award is valid for a period of one year only. We believe that our current CAFR continues to meet the Program's requirements and we are submitting it to the GFOA again this year.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, particularly the leadership of Brent Mason, Assistant Finance Director and Laura Nomura, Controller. We would like to express our appreciation to all members of the Department who assisted and contributed to its preparation. Credit also must be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



George A. Carvalho
City Manager



Paul C. Sundeen
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Riverside,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

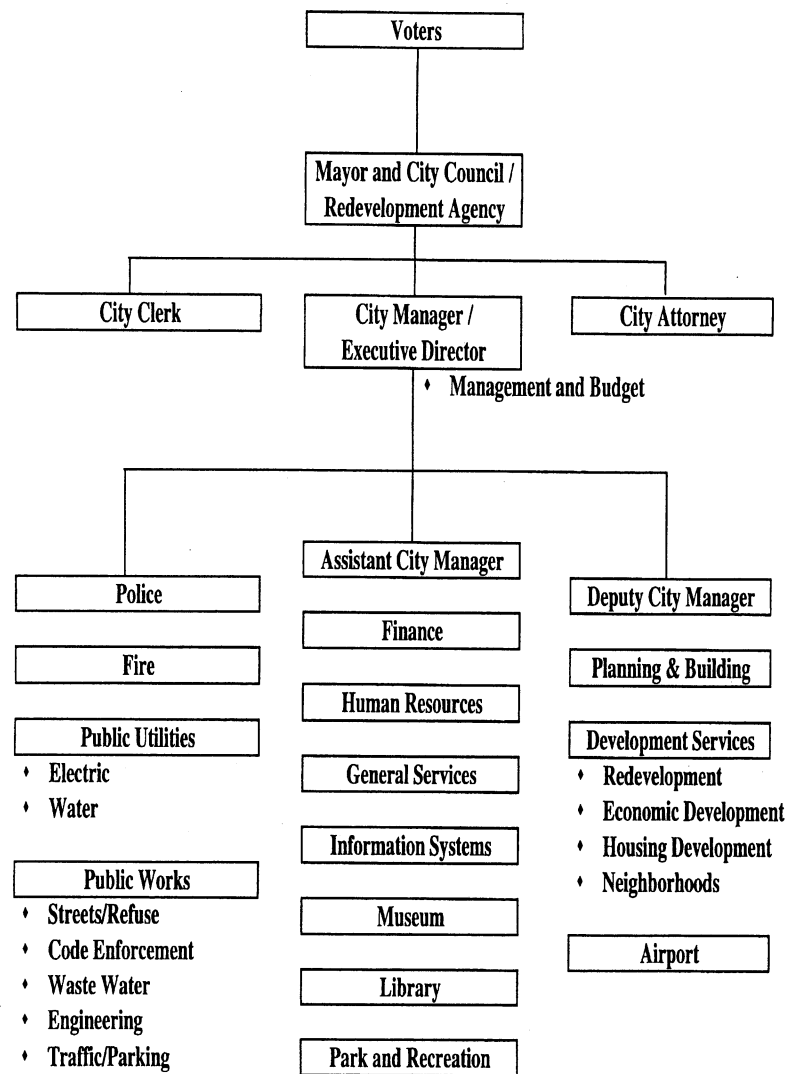
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Riverside for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

CITYWIDE ORGANIZATIONAL CHART



LEGISLATIVE OFFICIALS

Ronald O. Loveridge.....Mayor
 Chuck Beaty.....Councilman – Ward 1
 Ameal Moore.....Councilman – Ward 2
 Joy Defenbaugh.....Councilwoman – Ward 3
 Frank Schiavone.....Councilman – Ward 4
 Ed Adkison.....Councilman – Ward 5
 Nancy Hart.....Councilwoman – Ward 6
 Laura Pearson.....Councilwoman – Ward 7

CITY OFFICIALS

George A. Carvalho.....City Manager
 Penny Culbreth-Graft.....Assistant City Manager
 Michael J. Beck.....Deputy City Manager

Colleen J. Nicol.....City Clerk*
 Gregory P. Priamos.....City Attorney*
 John Sabatello.....Airport Director
 Russell Leach.....Chief of Police
 Tranda Drumwright.....Interim Development Director
 Paul C. Sundeen.....Finance Director
 Dave Carlson.....Fire Chief
 Art Alcaraz.....Human Resources Director
 Teri Burley.....Information Services Director
 Judith Auth.....Library Director
 Vince Moses.....Museum Director
 Terry G. Nielsen.....Park and Recreation Director
 Ken Gutierrez.....Planning Director
 Tom Evans.....Public Utilities Director
 Brian Nakamura.....Public Works Director

*Appointed by City Council

